



## Electricity (Amendment) Bill - Reviving the Power Sector

### Why in news?

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The Electricity (Amendment) Bill is expected to come up for passage by Parliament in the Winter Session.

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### What is the Bill about?

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  - The Bill proposes changes to the 2003 Electricity Act.
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  - The changes are intended to increase reliability and reduce risk in the power sector.
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  - In particular, the problem of failing on power purchase agreements (PPAs) is being taken up.

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### What does it address?

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  - PPA is a contract between the one who generates electricity and one which is looking to purchase it.
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  - PPAs are sometimes broken or renegotiated by distribution companies (discoms).
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  - This has led to changes in the cash flow of power plants, rendering them unprofitable.

- In some cases, this has led to investments in generation turning into non-performing assets.  
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- This is, in turn, contributing to the ongoing bad loans crisis in public sector banks.  
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## **What are the key changes made?**

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- The draft amendments suggest penalties for failing to honour PPAs.  
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- It prescribes up to Rs 10 million a day, and the suspension or even cancellation of a licence.  
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- It is also proposed that cross subsidisation of power be phased out.  
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- Cross-subsidisation refers to discoms charging higher prices from certain users to make up for under-charging others.  
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- E.g. cross subsidies of household consumers by industrial purchasers of power  
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## **What is the rationale?**

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- In India, consumers are not often charged the amount that their power actually costs.  
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- Given this, the interventions in favour of generation or distribution companies always end up at greater cost down the line.  
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- Even the UDAY scheme is no exception to this rule.  
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- But addressing this is more a political call and hence the problems in the power sector are primarily political.  
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- So making pricing system fairer, more rational, and more predictable is crucial to develop a sustainable power sector.

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- Essentially, the idea behind the Bill is that ending cross subsidies would rationalise power consumption and pricing.
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- It will force an increase in the tariffs that are charged to lower-end households and to farmers.
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## **What lies ahead?**

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- Certainly, there is no substitute for the political resolve to rationalise tariffs.
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- Yet there are other alternatives for medium-term stability which though depend on sustainable pricing in the long run.
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- The Rural Electrification Corporation that depends on lending to the power sector is not so much at risk.
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- This is because they benefit from an escrow structure in which they are assured of access to their borrowers' revenue.
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- Something similar might have to be worked out by the Reserve Bank of India for the generation companies.
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- This is essential if the power sector is to revive in spite of the discoms' ill health.
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**Source: Business Standard**

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